

Louisiana School Readiness Tax Credits

Geoffrey Nagle, PhD, MSW, MPH
Tulane Institute of
Infant and Early Childhood Mental Health
April 22, 2008

Why Tax Credits?

- Tax policies can support the ends we want to achieve...
 - School Readiness
 - Quality Child Care
- Tax credits provide stability
 - Don't have to come back year after year to fight for appropriations
- Tax credits go directly to the consumer or provider
 - No middle person and less costly to the bureaucracy

Tax Credits, Tax Credits,
Tax Credits

Economic Development

Economic Development

Investing in the Child Care Industry

An Economic Development Strategy for Louisiana



Prepared by
Geoffrey Nagle, PhD
Tulane University
Institute of Infant
and Early Childhood
Mental Health

and
Oak Terrell, PhD
Louisiana State
University – Division for
Economic Development
and Forecasting

Funded by
The Louisiana
Department of
Social Services

February
2005

Summary of Direct Effects of Child Care Sector

- There are 12,701 businesses, employing 22,644 workers, serving 149,000 children and generating approximately \$657 million in gross receipts.

Impact Analysis – Child Care Sector Compared to Other Sectors

- In Louisiana, Child Care has an economic impact (1.72) similar to
 - Motion picture and video industries (1.73)
 - Ship building and repairing (1.64)
 - Hotels-Motels (1.63)
 - Power generation and supply (1.47)

Tax Terms

- Tax credits
 - Credit vs. Deduction
- Refundable credits
 - Refundable vs. Non-refundable

Tax Credit vs. Tax Deduction

- A tax deduction reduces the amount of income you are taxed on...thereby reducing your tax bill
 - If you earn \$35,000 and you have a \$5,000 deduction, then you pay taxes on \$30,000
 - A deduction is worth a percentage equal to your tax bracket
 - If in 20% bracket, then the \$5,000 deduction will reduce your tax bill by \$1,000

Tax Credit vs. Tax Deduction

- A tax credit reduces your tax bill dollar for dollar in the amount of the credit.
 - If you earn \$35,000 and you have a \$5,000 tax credit, then your tax bill is reduced by \$5,000
 - A credit is worth 100%
 - If your tax bill is \$6,000 and you have a \$5,000 credit, then your tax bill is reduced to \$1,000

Refundable Credit vs. Non-refundable Credit

- A refundable credit allows you to receive the full credit, regardless of your tax liability.
- If your tax bill is \$5,000 and you have a \$5,000 refundable credit, then your final tax bill is \$0.
- If your tax bill is \$4,000 and you have a \$5,000 refundable credit, then your final tax bill is \$0 AND YOU RECEIVE A CHECK FOR \$1,000

Refundable Credit vs. Non-refundable Credit

- A non-refundable credit allows you to receive the full credit, up to your tax liability.
- If your tax bill is \$5,000 and you have a \$5,000 non-refundable credit, then your final tax bill is \$0.
- **HOWEVER, IF** your tax bill is \$4,000 and you have a \$5,000 non-refundable credit, then your final tax bill is \$0 **AND** you carry forward the unused credit to next year.
 - In this example, you have a \$1,000 credit to be applied to next year's tax bill.

School Readiness Tax Credits

- Credits to Providers
- Credits to Directors and Teachers
- Credits to Business for Supporting Child Care
- Credits to Parents/Consumers



Provider Tax Credits



Tax Credits to Providers

- Refundable credit
- Providers will receive a tax credit based on the number of children they serve in the Child Care Assistance Program (or in foster care)
- Both for-profit and non-profit centers are eligible

Tax Credits to Providers

Star Rating	New Tax Credit (per child in CCAP)
★★★★★	\$1,500
★★★★	\$1,250
★★★	\$1,000
★★	\$750
1 Star (or not participating)	No credit

Tax Credits to Directors and Teachers

- If you serve 10 CCAP children and you are a 3 star center, then you receive a \$10,000 refundable tax credit!
 - 10 children x \$750 (2 star center) = \$ 7,500
 - 10 children x \$1,000 (3 star center) = \$10,000
 - 10 children x \$1,250 (4 star center) = \$12,500
 - 10 children x \$1,500 (5 star center) = \$15,000



Tax Credits to Directors and Teachers

Tax Credits to Directors and Teachers

- Refundable credits
- Based on the level of education of the director and “staff”
 - Must be working at a center participating in Quality Start
 - Must work there at least 6 months
 - The star rating of the center does not impact this credit

Tax Credits to Directors and Teachers

Child Care Director and Staff Qualification	New Tax Credit
Level 4	\$3,000
Level 3	\$2,500
Level 2	\$2,000
Level 1	\$1,500



Employer Tax Credits



New Tax Credits to Employers

- Employers receive a credit for “eligible child care expenses” based on the quality rating of the center
- Refundable credits
- Credit would be instead of any existing tax deductions

New Tax Credits to Employers

Star Rating	New Tax Credit
5 Star	20% of eligible expenses
4 Star	15%
3 Star	10%
2 Star	5%
1 Star (or not participating)	No credit

New Tax Credits to Employers

- Eligible Expenses

- 1) Employers who construct, renovate, or expand a child care center, purchase equipment for a center, or maintain and operate a center may claim up to \$50,000 in expenses.

New Tax Credits to Employers

- Eligible Expenses

2) Employers may claim up to \$5,000 for expenses for each child for whom the employer pays for child care services to support employees.

New Tax Credits to Employers

- Eligible Expenses

3) Employers who purchase child care slots actually provided or reserved for children of employees may claim up to \$50,000 in expenses.

New Tax Credits to Employers

- Eligible Expenses is the sum of 1-3
 - Type 1) \$40,000
 - Type 2) \$60,000
 - Type 3) \$25,000
 - Total = \$125,000
- The credit to that business is worth the corresponding percentage x \$125,000.
- If 3 star center, then $10\% \times \$125,000 = \$12,500$.

New Tax Credits to Employers

- Eligible Expenses

4) Employers may claim a tax credit for up to \$5,000 in grants to child care resource and referral agencies.

- This credit is dollar for dollar.
- Maximum is \$5,000



Tax Credits to Parents/Consumers



New Louisiana – Tax Credits to Parents

- Builds on the existing state child care tax credit.
 - Applies only to children less than six years old.
- Families are eligible for an increased tax credit based upon the quality rating of the center.

Louisiana - Tax Credits to Parents (existing)

Current State Credit	Maximum Credit for One Child	Maximum Credit for Two or More Children
50% (federal AGI < \$25,000)	\$525	\$1,050
30% (federal AGE is \$25,001-\$35,000)	\$261	\$522
10% (federal AGE is \$35,001-\$60,000)	\$72	\$144
Greater than \$60,000	\$25	\$50

New Tax Credits to Parents

Star Rating	Increase to Existing State Tax Credit	Maximum Credit for One Child	Maximum Credit for Two or More Children
5 Star	200%	\$1,575	\$3,150
4 Star	150%	\$1,313	\$2,265
3 Star	100%	\$1,050	\$2,100
2 Star	50%	\$788	\$1,576
1 Star (or not participating)	No Change	\$525	\$1,050

Questions/Comments

Geoffrey Nagle

gnagle@tulane.edu

504/988-8241